BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
DELMARVA POWER & LIGHT COMPANY FOR	)	PSC Docket No.08-266F
APPROVAL OF MODIFICATIONS TO ITS	)	
GAS COST RATES.	)	
(FILED August 29, 2008)	)	

DIRECT TESTIMONY

OF

COURTNEY A. STEWART

ON BEHALF OF

COMMISSION STAFF

February 9, 2009

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I. Introduction and Purpose of Testimony

Q. Please state your name, business address, and current occupation.

A. My name is Courtney A. Stewart. My business address is 861 Silver Lake Boulevard, Suite 100, Dover, Delaware 19904. I am a Public Utilities Analyst I for the Delaware Public Service Commission ("PSC" or "Commission"). I have been employed as a Public Utilities Analyst since joining the Commission in November 2006.

Q. What are your job responsibilities as a public utilities analyst?

A. I am responsible for field audits of utilities, examinations of records and books of utilities, analysis of a utility's request to issue a debt security, evaluations of the financial condition of utilities, and preparation and presentation of testimony.

Q. What is your professional experience and education?

A. I have a Bachelor of Science Degree in Business Administration, with a minor in Spanish and Economics, and a M.B.A. from Wesley College. I am currently pursuing my Doctorate of Business Administration at Wilmington University. Prior to my employment with the Public Service Commission, I was employed at J. Wilgus, Inc. as an assistant office manager. My duties included overseeing accounts receivable, verifying payroll, preparing month and year end journal entries, scheduling deliveries, and handling customer complaints. In March of 2006, I began working at the Department of Natural Resources and Environmental Control in the Fish and Wildlife division as an accounting specialist. My duties included reconciling funds collected through license sales, conducting monthly audits of licenses, preparing the payroll forms for the division's seasonal employees, and answering general questions from the public concerning hunting and fishing regulations.

As a Public Utilities Analyst, I have participated in the review of accounting records, annual reports, and audits of Delmarva Power & Light Company, Chesapeake Utilities Company – Delaware Division ("Chesapeake"), and Artesian Water Company. Since my employment at the PSC I have attended the NARUC Annual Regulatory Studies Program at Michigan State University. I have successfully completed a trading, derivatives, hedging, and risk management competency path which consisted of twelve on-line courses offered by the Oxford Princeton Program. In addition, my coursework has included classes in Accounting, Finance, Business Law, and Economics at the graduate and undergraduate level.

Q. What is the purpose of your testimony in this proceeding?

A. I was assigned to review this application and ensure that the rates set forth are just, reasonable, and comply with Delmarva Power and Light's (the "Company" or "Delmarva") tariff. In my testimony I have included a detailed recommendation to the Commission with regard to the treatment of this application.

II. Summary of Conclusions

Q. Please summarize your conclusions and recommendations.

A. After reviewing the filing and data responses, I have formed the following conclusions and recommendations:

- The GCR rates requested in the Application for November 1, 2008 through October 31, 2009, and approved by the Commission on a provisional basis, should be finalized. This will be subject to a true-up in Delmarva's next GCR proceeding based on actual gas procurement costs and revenue during this period.
- It appears the Company is complying with the settlement agreement in Docket 00-314 regarding their margin sharing.
- The Commission should continue to monitor the Company's increased fixed costs – especially in relation to customer growth.
- The Company should continue to promote their budget billing and public awareness campaigns.
- Staff agrees with witness Richard W. LeLash's recommendations, which he will explain in greater detail in his testimony.

III. Background of the Filing

A. Summary and Review of the Filing

Q. Please summarize this filing.

A. The GCR is the rate that the Company charges its customers to recover natural gas costs for the twelve month period of November 1st through October 31st of each year. The Company's tariff requires an annual estimated GCR filing to be made by August 31st of each year. The rates effective November 1, 2008, are based on projected sales data and gas costs for the twelve-month period November 1, 2008 through October 31, 2009. The Company provided testimony to reconcile and true-up actual with estimated Commodity Cost Rate assignments for its Large Volume Gas service ("LVG") and electing Medium Volume Gas service ("MVG") customers. The Company also provided testimony to reconcile and true-up actual versus estimated Commodity Cost Rate assignments for sales to Flexibly Priced Sales ("FPS") service customers.

Q. What changes to the current GCR is the Company proposing?

A On August 29, 2008 Delmarva filed an application to revise the GCR demand and commodity charge applicable to Service Classifications MVG and LVG, and to revise the volumetrically applied GCR factors applicable to Service Classifications Residential Gas Sales Service ("RG"), General Gas Sales Service ("GG"), Gas Lighting Sales Service ("GL"), and non-electing MVG, effective on November 1, 2008 with proration.

Below is an illustration of the modifications Delmarva is proposing to its GCR:

	Present		Proposed	
Rate Schedules	GCR Demand Charge	GCR Commodity Charge	GCR Demand Charge	GCR Commodity Charge
RG, GG and GL	N/A	96.517¢/ccf	N/A	117.560¢/ccf
Non-electing MVG	$10.2000/Mcf of Billing MDQ	$8.2710/Mcf	$8.5538/Mcf of Billing MDQ	$10.5303/Mcf
Electing MVG and LVG	$10.2000/MCf of Billing MDQ	Varies	$8.5538/Mcf of Billing MDQ	Varies
Standby Service	$10.2000/Mcf of Standby MDQ	N/A	$8.5538/Mcf of Standby MDQ	N/A

Q. How does this GCR increase impact Delmarva's residential customers?

A. An average residential heating customer using 120 ccf during a winter month will experience an increase of $25.25, or 14.3% of their total bill. I have attached a bill calculation (Attachment CAS-1) showing what percentage of the total bill will be associated with the GCR change.

Q. Please explain the impact of the GCR change on the Commercial and Industrial customers.

A. Customers served on Service Classifications GG and non-electing MVG will experience increases on their winter bills within the ranges of 8.7% to 17.1% and 16.1% to 22.3%, respectively, depending on load usage and characteristics.

Q. Was any supplemental testimony filed in docket 08-266F?

A. Yes. On January 26, 2009, Delmarva filed supplemental testimony in support of an out-of-cycle request to implement a decrease in the GCR effective for billing on and after March 1, 2009.

Q. Why did the Company file supplemental testimony?

A. The filing was made because of a rapid drop in natural gas prices, which caused a projected over-recovery in excess of the deadband specified in the Gas Service Tariff. Without a change to the present GCR, the Company was projecting an over-recovery of $10.6 million, or 6.9% of the projected firm gas costs for the 2008-09 GCR period. The Company's supplemental filing proposed a decrease which would result in a reduction of the projected over-recovery to $7.0 million, or 4.5% of the updated projected firm gas costs at the end of the Application period.

Q. What change to the current GCR is the Company proposing in their supplemental testimony?

A Delmarva's supplemental application revised the GCR commodity charge applicable to Service Classifications Residential Gas Sales Service ("RG"), General Gas Sales Service ("GG"), Gas Lighting Sales Service ("GL"), and non-electing MVG, effective on March 1, 2009 with proration.

Below is an illustration of the modifications Delmarva is proposing to its GCR:

	Present		Proposed	
Rate Schedules	GCR Demand Charge	GCR Commodity Charge	GCR Demand Charge	GCR Commodity Charge
RG, GG and GL	N/A	117.560¢/ccf	N/A	109.812¢/ccf
Non-electing MVG	$8.5538/Mcf of Billing MDQ	$10.5303/Mcf	$8.5538/Mcf of Billing MDQ	$9.7555/Mcf
Electing MVG and LVG	$8.5538/Mcf of Billing MDQ	Varies	$8.5538/Mcf of Billing MDQ	Varies
Standby Service	$8.5538/Mcf of Standby MDQ	N/A	$8.5538/Mcf of Standby MDQ	N/A

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Q. How does this GCR increase impact Delmarva's residential customers?

A. An average residential heating customer using 120 ccf during a winter month will experience a decrease of $9.37, or 4.7% of their total bill. I have attached a bill calculation (Attachment CAS-2) showing what percentage of the total bill will be associated with the GCR change from the Supplemental testimony. I have also attached a bill calculation (Attachment CAS-3) which compares the 2007-2008 GCR (Docket 07-239F) to the supplemental filing. This calculation shows that the net effect of the original filing on August 29, 2008 and the supplemental filing on January 26, 2009 will be a $15.88 increase, or 9% of their total bill.

Q. Please explain the impact of the GCR change on the Commercial and Industrial Customers.

A. Commercial and Industrial Customers served under the Service Classifications "GG" and "MVG" will experience decreases in the total bill amount ranging from 2.1% to 3.0% and 5.3% to 6.5%, respectively, depending on Service Classification and load and consumption characteristics.

Q. Please explain your review of this application.

A. In order to prepare for this filing, I reviewed the Company's application, including testimonies and exhibits, prior GCR dockets, orders, and documents regarding follow-up issues; and reviewed the 2007-2008 quarterly Hedge Reports. I reviewed the natural gas demand and supply plan for this application and the strategic gas supply plan for the 6-year period 2008/2009 through 2013/2014.

In addition to information obtained through the formal discovery process, I had numerous phone conversations with Company personnel and met with Company personnel. I also conducted monthly audits of Delmarva's GCR sales, revenues, and costs. This process will be further discussed in my testimony.

Q. Were you assisted in your review of this filing?

A. Yes. Mr. Richard LeLash was hired by the Commission to assist Staff in reviewing the GCR filing and the Company's Supply Plan, and evaluating the Company's procurement against established regulatory standards. Mr. LeLash reviewed the Company's load forecast and resource mix that is used to meet demand. His review also focused on the gas costs, gas purchasing practices, and the management of the Company's gas supply.

B. Preparation of the Filing

Q. What actions did you take in preparing for this filing?

A. Prior to the Company filing their annual GCR, I took many proactive steps in auditing the Company's gas costs. Each month the Company submits regulatory reports to the Commission. I would start my review at the highest level with the report entitled "Comparison of Gas Expense and Recovery." This report provides totals for firm sales, GCR revenue, gas cost, the Company's over or under monthly recovery, the deferred fuel balance (year-to-date), and the percentage of over or under recovery. The Company also supplies reports that cover the development of annual commodity and demand expenses, summarize the sales and gas cost rate revenues for the various classes, and summarize all pipeline purchases, storage injections and withdraws, and hedge program financial settlements.

Upon my request, the Company would submit back-up to these reports. The back-up would consist of:

- Any changes of MVG & LVG contract MDQs in Mcf.
- Spreadsheets detailing all line item charges to firm and non-firm transportation customers.

- Accounting reports for accounts such as: Gas-System Purchases, Gas System Hedge Financials, Gas Injections and Withdraws, Flexibly Prices Sales ("FPS") costs, and Revenue from Off-System Capacity.
- Monthly GCR sales totals back-up for Residential, MVG (electing and non-electing), LVG, and Special contracts.

C. 2007/2008 Gas Cost Rate Proceeding

Q. Please provide an update to the specific settlement agreement points in the previous year's GCR, Docket No. 07-239F.

A. Below are the specific settlement points from the previous year's GCR, Docket No. 07-239F:

1. Delmarva will not plan to hedge more than 100% of its estimated firm supply requirements in any given month. If Delmarva is more than 100% hedged, it will provide an explanation in the Quarterly Hedging Report explaining the circumstances that gave rise to that position. The parties agree to initiate a dialogue on the merits of continuing to sell put options to offset the premium associated with buying call options. The Company will prepare a report discussing the pros and cons of its current strategy. This report will be filed prior to, or with, the Company's next GCR filing.

2. Delmarva will modify the Quarterly Hedge Report to include a page that provides a side-by-side comparison of the Percent of Plan Hedged in the current period (the period covered by the Quarterly Report) to the Percent of Plan Hedged in both the previous quarter and the same quarter in the prior year. This will be for Total Hedges, Hedges of City Gate Deliveries, and Hedges of Storage Injections as indicated on Page 1 of 3 of the Quarterly Hedge Report.

3. The parties will conduct an informal annual review of the Hedge Program each year at the quarterly meeting after the 2nd Quarter Hedge Report is filed with the Commission on August 15. Any proposed modifications to the hedge program will be reviewed as part of a Gas Cost Rate (GCR) proceeding.

4. Delmarva's Natural Gas Commodity Risk Management Policy will be reviewed by the Company's Corporate Risk Management Committee each December. An update of the review will be provided to the parties no later than 60 days after the Corporate Risk Management Committee meets.

5. The Company's revised Natural Gas Commodity Risk Management Policy adequately addresses Staff's concerns regarding:

    a. comprehensiveness – covering all gas hedging and risk management policies and procedures;

    b. procedures for approving hedge counterparties and managing counterparty credit risk; and

    c. establishing trading limits for Company personnel and a procedure for approving trades of various sizes.

6. If, after reviewing Delmarva's revised Natural Gas Commodity Risk Management Policy, Staff and DPA are concerned regarding the manner in which the issues in 5 a-c above have been addressed, Delmarva shall meet with Staff and DPA in an effort to address those concerns.

7. Delmarva agrees to revise its future GCR filings to more specifically show the crediting of capacity release revenues and off-system sales margins. Delmarva will include a schedule showing the actual margins/revenues received starting in July preceding the first month of the true-up period, and demonstrate that the first $1.7 million of such margins/revenues is credited to the GCR, after which margins/revenues are shared 80/20 between ratepayers and shareholders.

8. In the event that the Company seeks recovery of any costs relating to the Eastern Shore Energylink Expansion Project, either through a GCR filing or some other filing, the Company will clearly identify the costs being claimed, provide supporting documentation for the costs, and explain why Delmarva believes the costs should be recovered from ratepayers

9. The parties' agreement on the issues set forth above does not waive any rights that they may have with respect to these issues in future GCR or any other proceedings.

It appears that Delmarva has complied with the settlement agreement. The Company prepared a report on the merits of continuing to sell put options to offset the premium associated with buying call options. Delmarva has also altered their current hedge report to show the side-by-side quarter comparison of the Percent of Plan Hedged in the current period (the period covered by the Quarterly Report) to the Percent of Plan Hedged in both the previous quarter and the same quarter in the prior year. Commission Staff is currently reviewing the Company's hedging program. Staff witness Mr. Richard LeLash will provide more information on this topic in his testimony. Regarding settlement point 8, the Company did not include any costs relating to Eastern Shore's Energylink Expansion Process in the Company's estimated 2008-2009 gas costs. On January 29, 2009, Delmarva submitted their updated Natural Gas Commodity Risk Management Policy. This Policy is still in the process of being reviewed by Staff.

D. Forecasted Gas Sales & Supply Costs

Q. Please summarize the projected sales forecast for the November 2008-October 2009 GCR.

A. Delmarva used the same methodology that was used in the previous GCR (October 2007-November 2008) to forecast their sales for the current GCR. The smaller rate classes (Residential, Residential Space Heat, and General Gas Customers) forecasted usage is projected using a multi-variate econometric model. The larger rate classes' forecasts are determined on a customer by customer basis using sales patterns, production and maintenance schedule changes, and load additions or deletions. In their forecasts, Delmarva defined normal weather as the 30 year average of monthly Heating Degree Days on a 65 degree Fahrenheit base (HDD), which is consistent with the Commission's Order in Docket 03-127.

Delmarva's sales forecast projects the total throughput volume for October 2008 through November 2009 increasing 1,767,528 Mcfs, or 9.35%. Firm sales are projected to increase .04%. The greatest increase in sales comes from the Firm Transportation sector, which is projected to increase 38.91%.

	2008	2007	Change	% Change
Firm Sales	14,383,405	14,377,347	6,058	0.04%
Firm Transportation	6,288,935	4,527,465	1,761,470	38.91%
Firm Throughput	20,672,340	18,904,812	1,767,528	9.35%

Q. What percentage loss factor did the Company use in this application to account for gas that is lost and unaccounted for?

A. The Company used a 2% loss factor. This is a reduction from the 2.5% loss factor that was used in the Company's previous application. The Company reduced the loss factor due to a lower rolling twelve month average of 1.4% (through June 2008), which indicated a slight downward trend.

Q. Please discuss how the forecasted spot purchase costs were developed.

A. The Company used the NYMEX gas futures closing prices on August 18, 2008 as its spot (wholesale) gas price. This methodology is in compliance with Delaware PSC Order 6956, which states:

(a) Delmarva Power & Light Company will use the NYMEX natural gas futures as the primary tool in establishing its proposed gas cost rate each year;

(b) Delmarva Power & Light Company will use the NYMEX gas futures prices based upon a single day's close or an average of two or more days of closing prices selected from actual gas futures closing prices observed between July 20 and August 20 each year;

(c) Delmarva Power & Light Company will use a consistent gas futures forecasting methodology from year-to-year unless, in its good faith business judgment, the Delmarva Power & Light Company believes that market indicators suggest that a different methodology is likely to provide a more accurate gas cost rate forecast;

Q. How does methodology used for the forecasted spot purchases compare to the methodology used in the 2007-2008 GCR application?

A. In the previous year's GCR application, The Company used the NYMEX gas futures closing prices on July 24, 2007 as its spot (wholesale) gas price.

Q. Please summarize the natural gas commodity costs for the November 2008-October 2009 GCR.

A. The Company's commodity requirements consist of storage withdrawals, hedged purchases, and spot purchases. The Company's commodity requirement consists of 23.5% storage withdrawals, 49.8% hedged purchases, and 26.7% spot purchases. In their initial application, the Company estimated commodity costs of $150,855,807 for the November 2008 to October 2009 GCR period. However, according to Witness Bacon's attachment III in the Company's supplemental application, commodity costs are projected to be $140,620,924.

Q. Please describe the level the Company is hedged for the November 2008-October 2009 GCR period.

A. City gate deliveries are hedged at 64% for the entire GCR period, with an average cost of $10.26. Storage injections are hedged at 15%; with an average cost of $8.43. From November 2008-October 2009, 53% of the plan is hedged, with an average cost of $10.08.

Q. Please summarize the Company's projected fixed costs for the November 2008-October 2009 GCR.

A. The Company is projecting fixed costs totaling $25,652,938 for the November 2008-October 2009 GCR period. This estimate includes costs relating to pipeline capacity and supply, costs for storage/seasonal services, and costs for supplemental and peaking sources. Attachment CAS-4 compares fixed costs for the 2007-2008 GCR with the projected fixed costs for the 2008-2009 GCR. The results of this comparison show:

- Total fixed costs are projected to be 11.26% higher than the previous GCR; totaling an increase of $2,630,317
- Costs for pipeline capacity and supply are estimated to be 13.55% higher than the previous GCR; totaling an increase of $2,618,687
- Costs for storage and seasonal services are estimated to be 0.30% higher than the previous GCR; totaling an increase of $11,630

- Costs for supplemental and peaking sources are estimated to remain the same as the previous GCR

According to Witness Bacon's testimony (question 7), "The increase in fixed costs is attributable primarily to (a) subscription to 25,000 Dth/day of Transco Sentinel capacity expected to be in-service on November 1, 2008, (b) differences in Transco's as filed rates in Docket RP06-569 and the permanent RP06-569 rates approved by FERC, and (c) a decrease of $343, 500 in the Trunkline portion of the Tetco ITP demand charges as the result of correcting an overstatement of the rate contained in last year's GCR application."

Q. How do these costs relate to the increase in fixed costs in the previous year's GCR period 2007-2008?

A. In the previous year's GCR:

- Pipeline capacity and supply fixed costs increased by 13.2%
- Storage and seasonal service fixed costs increased by 8.8%
- Supplemental and peaking services fixed costs increased by 56.5%

I have attached CAS-5 which provides a full analysis of the increased fixed costs from the 2006-2007 GCR and the 2007-208 GCR.

Q. Do you have any recommendations regarding the continued increase in fixed costs?

A. Yes. The Commission should continue to monitor the Company's increased fixed costs – especially in relation to customer growth.

Q. What steps is the Company taking to reduce the volatility of wholesale natural gas costs and lessen the price impact on customers?

A. The Company is taking three measures to lessen the price volatility of natural gas to their customers.

(1) Hedging Program – The objective of the program is to reduce gas commodity price volatility, while limiting firm customers' exposure in the wholesale market price of gas.

(2) Storage Injections – The Company purchases natural gas in shoulder and summer months to inject into storage. The Company is then able to withdraw the gas during times of high prices, which protects their customers from seasonal price swings.

(3) Good Neighbor Energy Fund, Low Income Summit, and Budget Billing – The Company has various programs in place which provide financial assistance and educate customers on rising energy prices. The Company also offers flexible payment arrangements, such as budget billing.

Each of these measures will be further discussed later in my testimony.

<u>E. Delmarva's Hedging Program</u>

Q. What is the goal of the Company's gas hedging program?

A. The goal of Delmarva's hedging program is to reduce the volatility of the wholesale commodity cost of natural gas while providing protection against wholesale gas commodity price spikes.

Q. Please provide a summary of 2008 natural gas market fundamentals.

A. Natural gas prices reached record highs during the summer of 2008, and then collapsed below the five year average. Spot Henry Hub prices peaked at $13.32/MMBtu on July 3, 2008. Attachment CAS-6, taken from the Federal Energy Regulatory Commission's (FERC) December Market Snapshot Report, depicts Henry Hub natural prices over the past 5 years.

Domestic production also increased substantially in 2008 – with many production gains due to unconventional gas sources. Attachment CAS-7 shows the increased production levels in the Rockies and Texas (Barnett Shale) over the past three years.

The FERC also identifies the following key 2008 Gas Market Fundamentals;

- A cool summer helped to reduce consumption growth (Attachment CAS-8)
- Despite biggest January storage withdrawals in more than 10 years, overall inventories approximate the 5 year average (Attachment CAS-9)
- September hurricane damage defers 300 Bcf of production, but does not prevent gas price collapse (referring to Attachment CAS-6)
- Overall gas balance indicates a well-supplied market for most of 2008

Q. Is Staff recommending any changes to the Company's hedging program?

A. Yes. In light of the recent results of the Company's hedging program, Staff Witness Richard LeLash has made recommendations for the program. Mr. LeLash describes his recommendations in his testimony.

F. Off System Sales Margins and Capacity Release Revenues

Q. Please describe how the Company is to credit Off System Sales Margins and Capacity Release Revenues to the GCR.

A. The settlement agreement in Docket No. 00-314 provides the parameters of revenue sharing between the Company and the GCR costs. Ratepayers are credited with 100% of these margins up to $1.7 million annually. Any margins over $1.7 million are split 80% to ratepayers and 20% to shareholders.

Q. Is the Company complying with the settlement agreement in Docket No. 00-314?

A. Yes, it appears that they are. The Company has provided their external audit report which was completed by Price Waterhouse Coopers ("PWC"). PWC stated, in their Independent Auditors Report, that the schedule showing the "Comparison of Gas Cost and Recovery" is free of material misstatement. The full external audit was filed with the Commission, and is available upon request.

G. Capacity Requirements

Q. Is the Company still continuing to a project a design day shortfall over the upcoming winter heating season?

A. No, the company is projecting a design day reserve for the winter of 2008-09 of approximately 15,216 Mcf of supply.

Q. Why is the Company projecting such a large reserve?

A. The Company has subscribed to 24,155 Mcf/day of new Transco Sentinel capacity. This new capacity was placed in service on December 21, 2008. For the next six heating seasons (2008-09 through 2013-14) the Company is projecting a design day surplus. For gas supply planning purposes, the Company is anticipating to add approximately 2,000 Mcf of load on design day. The chart below summarizes the design day reserves predicted for the upcoming heating seasons (information taken from the Company's Strategic Gas Supply Plan 2008-09 through 2013-14):

Year	Peak Day Prediction Mcf/day	Total Supply in Mcf per Day	Reserve or (Shortage)
2008-2009	178,169	193,385	15,216
2009-2010	180,213	193,385	13,172
2010-2011	182,257	193,385	11,128
2011-2012	184,301	193,385	9,084
2012-2013	186,345	193,385	7,040
2013-2014	188,389	193,385	4,996

Q. Have there been any other pipeline updates or changes since the GCR application was filed on August 28, 2008?

A. Yes, there have been. On December 21, 2008, Phase 1 of Transco's Sentinel Expansion Project was placed into service.

H. Customer Awareness Campaigns

Q. Please describe the Company's Budget Billing Program.

A. The Company's Budget Billing Program helps customers avoid seasonal peaks in energy usage by dividing their payments evenly over the course of the entire year. The

Company has taken the following steps to inform customers about their budget billing program:

- Radio and print advertising messages
- Internet-based information
- Bill inserts
- Budget billing promotional message on its billing envelope in the fall
- Community meetings and various Speakers Bureau Events

Q. What other measures is the Company taking to educate consumers and provide financial assistance?

A. On October 15, 2008, I attended the Low Income Summit, which was sponsored by Pepco Holdings in Dover, DE. There was a higher than normal participation level from Delaware based organizations and agencies. Many of the workshops dealt with the challenges of dealing with higher energy costs.

Delmarva also held several community meetings to educate customers on increasing energy costs and conservation measures. These meetings were held in Wilmington at the Latin American Community Center in Wilmington (September 25th and 29th) and the Woodlawn Library (September 30th); at the Newark Senior Center (October 8th); and at the Gilliam Building in New Castle (October 8th).

Delmarva has also partnered with the Salvation Army to offer assistance to low income families with the Good Neighbor Energy Fund (GNEF). To support the GNEF, envelopes are inserted in bills twice a year during the heating season. There was also a news release that was distributed on the GNEF in December 2008.

Delmarva supports the Consumer Energy Education Group, which was formed to help Delawareans manage their energy costs.

I. Gas Cost Rate Recommendations

Q. Do you agree with the Company's request to modify its GCR factors?

A. Yes, the request appears reasonable. I recommend that the PSC approve the rates that were authorized on a temporary basis, subject to refund, for the GCR period. The GCR true-up process will provide reconciliation between currently projected gas costs and actual gas costs.

Q. Does this conclude your testimony?

A. Yes, it does.

DELMARVA BILL CALC

		CURRENT		PROPOSED	Total Increase In the GCR Portion
CUSTOMER CHARGE		$9.56		$9.56	
BASE RATE 120 CCF	0.42101	$50.52	0.42101	$50.52	
GCR 120 CCF	0.96517	$115.82	1.1756	$141.07	$25.25
*ESR 120 CCF	0.00238	$0.29	0.00175	$0.21	
TOTALS		$176.19		$201.36	

% CHANGE GCR PORTION	**21.8%**
% CHANGE TOTAL BILL	**14.3%**
$ INCREASE	**$25.18**

*Reflects the proposed reduction in the Company's Environmental Surcharge Ride, Docket No. 08-267, filed August 29, 2008
**Reflects the change for a residential heating customer using 120 ccf during a winter month.

DELMARVA BILL CALC

		CURRENT		**PROPOSED
CUSTOMER CHARGE		$9.56		$9.56
BASE RATE 120 CCF	0.42101	$50.52	0.42101	$50.52
GCR 120 CCF	1.1756	$141.07	1.09812	$131.77
*ESR 120 CCF	0.00238	$0.29	0.00175	$0.21
TOTALS		$201.44		$192.07
		% CHANGE GCR PORTION		**-6.6%**
		% CHANGE TOTAL BILL		**-4.7%**
		$ DECREASE		**-$9.37**

*Reflects the proposed reduction in the Company's Environmental Surcharge Ride, Docket No. 08-267, filed August 29, 2008

**Reflects the change for a residential heating customer using 120 ccf during a winter month.

***Reflects Supplemental Testimony, filed January 26, 2009 effective for bills rendered on and after March 1, 2009

DELMARVA BILL CALC

		CURRENT		PROPOSED
CUSTOMER CHARGE		$9.56		$9.56
BASE RATE 120 CCF	0.42101	$50.52	0.42101	$50.52
GCR 120 CCF	0.96517	$115.82	1.09812	$131.77
*ESR 120 CCF	0.00238	$0.29	0.00175	$0.21
TOTALS		$176.19		$192.07

% CHANGE GCR PORTION	**13.8%**
% CHANGE TOTAL BILL	**9.0%**
$ DECREASE	**$15.88**

*Reflects the proposed reduction in the Company's Environmental Surcharge Ride, Docket No. 08-267, filed August 29, 2008

**Reflects the change for a residential heating customer using 120 ccf during a winter month.

***Reflects Supplemental Testimony, filed January 26, 2009 effective for bills rendered on and after March 1, 2009

DELMARVA POWER & LIGHT COMPANY
FIRM TRANSPORTATION & STORAGE CONTRACT PORTFOLIO

SUMMARY OF PROJECTED FIXED GAS COSTS

Pipeline Capacity & Supply	2007-2008 TOTAL COSTS	2008-2009 TOTAL COSTS	YEAR-TO-YEAR CHANGE	PERCENTAGE CHANGE
TRANSCO SENTINEL FT		$ 3,121,543	$3,121,543	0.00%
TRANSCO FT	$9,299,638	$ 9,257,069	($42,569)	-0.46%
TRANSCO FT (ESNG)	$94,285	$ 93,854	($431)	-0.46%
TRANSCO LIEDY-LINE FT	$680,052	$ 217,032	($463,020)	-68.09%
COLUMBIA FTS	$1,919,112	$ 1,919,112	$0	0.00%
GULF FTS-1 & FTS-2	$811,714	$ 811,714	$0	0.00%
TETCO ITP AND LATERAL	$2,161,402	$ 1,817,904	($343,498)	-15.89%
NATIONAL/NOVA/TCPL	$205,088	$ 205,088	$0	0.00%
EASTERN SHORE FT365**	$4,088,076	$ 4,434,738	$346,662	8.48%
EASTERN SHORE T-1	$66,264	$ 66,264	$0	0.00%
SUBTOTAL	$19,325,631	$ 21,944,318	$2,618,687	13.55%
Storage/Seasonal Services				
TRANSCO GSS	$1,486,332	$ 1,487,508	$1,176	0.08%
COLUMBIA FSS	$635,028	$ 635,028	$0	0.00%
COLUMBIA SST	$830,970	$ 830,970	$0	0.00%
TRANSCO PS-3	$133,305	$ 132,695	($610)	-0.46%
PENN YORK SS-2	$316,056	$ 327,120	$11,064	3.50%
TRANSCO ESS	$283,680	$ 283,680	$0	0.00%
COLUMBIA GULF WINTER FTS-1	$12,890	$ 12,890	$0	0.00%
TRANSCO WSS	$226,375	$ 226,375	$0	0.00%
SUBTOTAL	$3,924,636	$ 3,936,266	$11,630	0.30%
Supplemental & Peaking Sources				
TRANSCO LGA	$82,284	$ 82,284	$0	0.00%
TRANSCO LNG	$36,732	$ 36,732	$0	0.00%
DELMARVA LNG	$ -	$ -	$0	0.00%
SUBTOTAL	$119,016	$ 119,016	$0	0.00%
TOTAL	$23,369,283	$ 25,999,600	$2,630,317	11.26%

***source - schedule WTB-3

**Includes an additional 3,200 Dth/day from ESNG effective November 1, 2008.
This was the last increment of a three year expansion project
that FERC approved in June 2006 (Docket No. CP06-53).

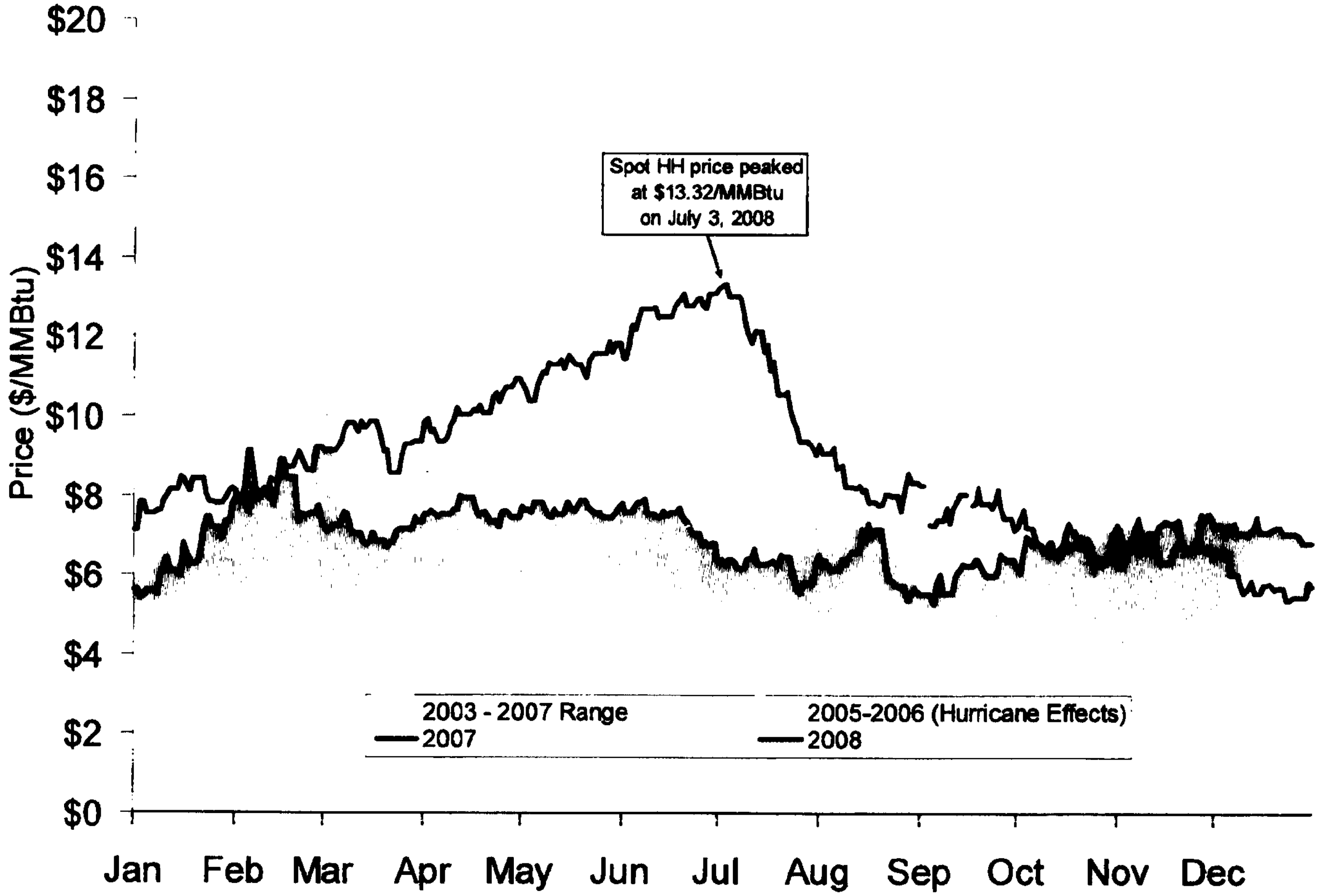
DELMARVA POWER & LIGHT COMPANY
FIRM TRANSPORTATION & STORAGE CONTRACT PORTFOLIO

SUMMARY OF PROJECTED FIXED GAS COSTS

Pipeline Capacity & Supply	**2006-2007** TOTAL COSTS	**2007-2008** TOTAL COSTS	YEAR-TO-YEAR CHANGE	PERCENTAGE CHANGE
TRANSCO FT	$8,136,159	$9,299,638	$1,163,479	14.3%
TRANSCO FT (ESNG)	$82,490	$94,285	$11,795	14.3%
TRANSCO LIEDY-LINE FT	$174,336	$680,052	$505,716	290.1%
COLUMBIA FTS	$1,919,112	$1,919,112	$0	0.0%
GULF FTS-1 & FTS-2	$811,714	$811,714	$0	0.0%
TETCO ITP AND LATERAL	$2,161,402	$2,161,402	$0	0.0%
NATIONAL/NOVA/TCPL	$205,088	$205,088	$0	0.0%
EASTERN SHORE FT365	$3,513,660	$4,088,076	$574,416	16.3%
EASTERN SHORE T-1	$61,140	$66,264	$5,124	8.4%
SUBTOTAL	$17,065,101	$19,325,631	$2,260,530	13.2%
Storage/Seasonal Services				
TRANSCO GSS	$1,366,332	$1,486,332	$120,000	8.8%
COLUMBIA FSS	$635,028	$635,028	$0	0.0%
COLUMBIA SST	$830,970	$830,970	$0	0.0%
TRANSCO PS-3	$116,628	$133,305	$16,677	14.3%
PENN YORK SS-2	$316,056	$316,056	$0	0.0%
TRANSCO ESS	$126,036	$283,680	$157,644	125.1%
COLUMBIA GULF WINTER FTS-1	$12,890	$12,890	$0	0.0%
TRANSCO WSS	$202,983	$226,375	$23,392	11.5%
SUBTOTAL	$3,606,923	$3,924,636	$317,713	8.8%
Supplemental & Peaking Sources				
TRANSCO LGA	$52,584	$82,284	$29,700	56.5%
TRANSCO LNG	$23,460	$36,732	$13,272	56.6%
DELMARVA LNG	$0	$0	$0	
SUBTOTAL	$76,044	$118,956	$42,972	56.5%
TOTAL	$20,748,068	$23,369,223	$2,621,215	12.6%

***source - schedule WTB-3

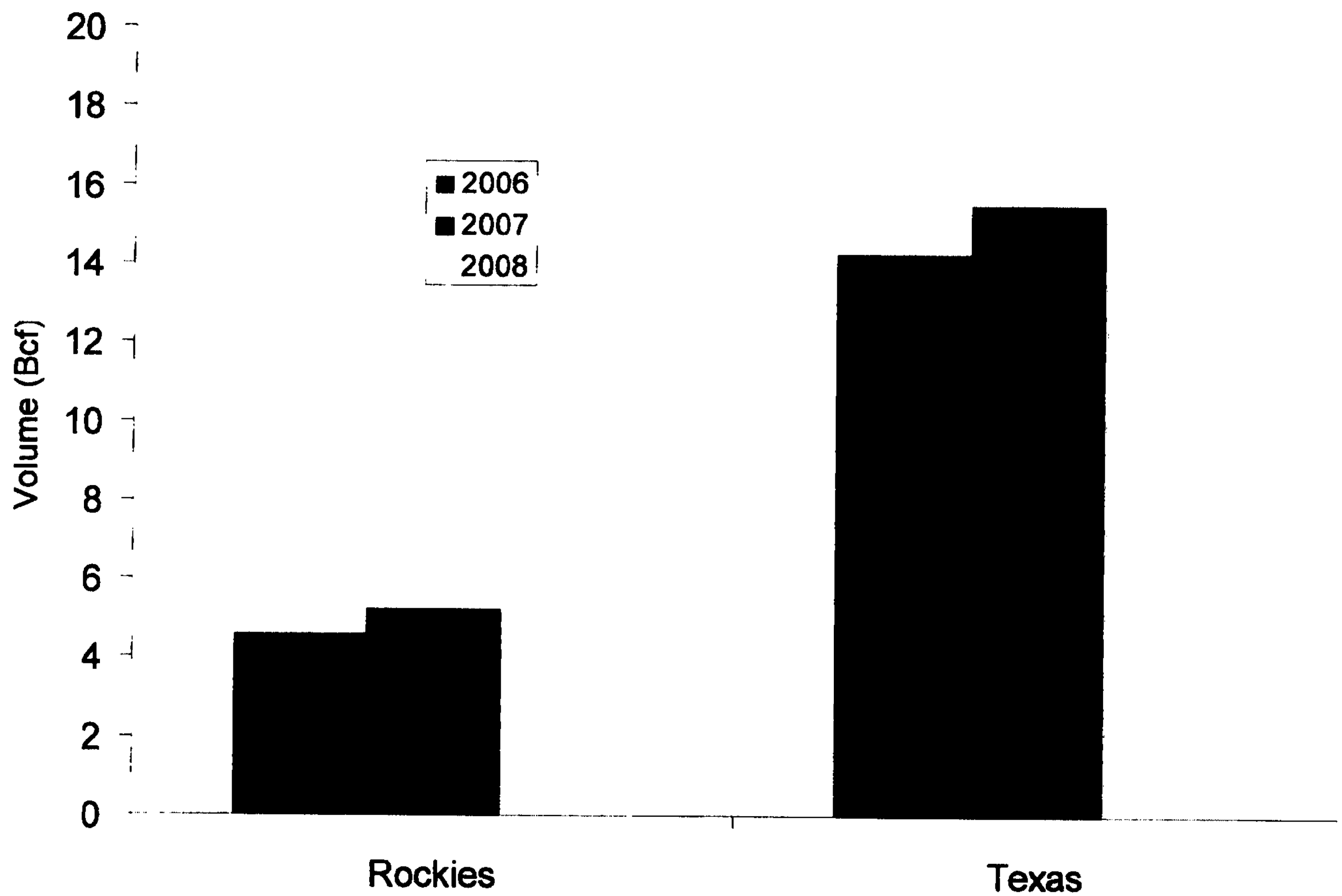
Henry Hub Natural Gas Daily Spot Prices
Prices Climb Far Outside the 2003-2007 Range



Source: Derived from *Platts* data.

Updated January 9, 2009

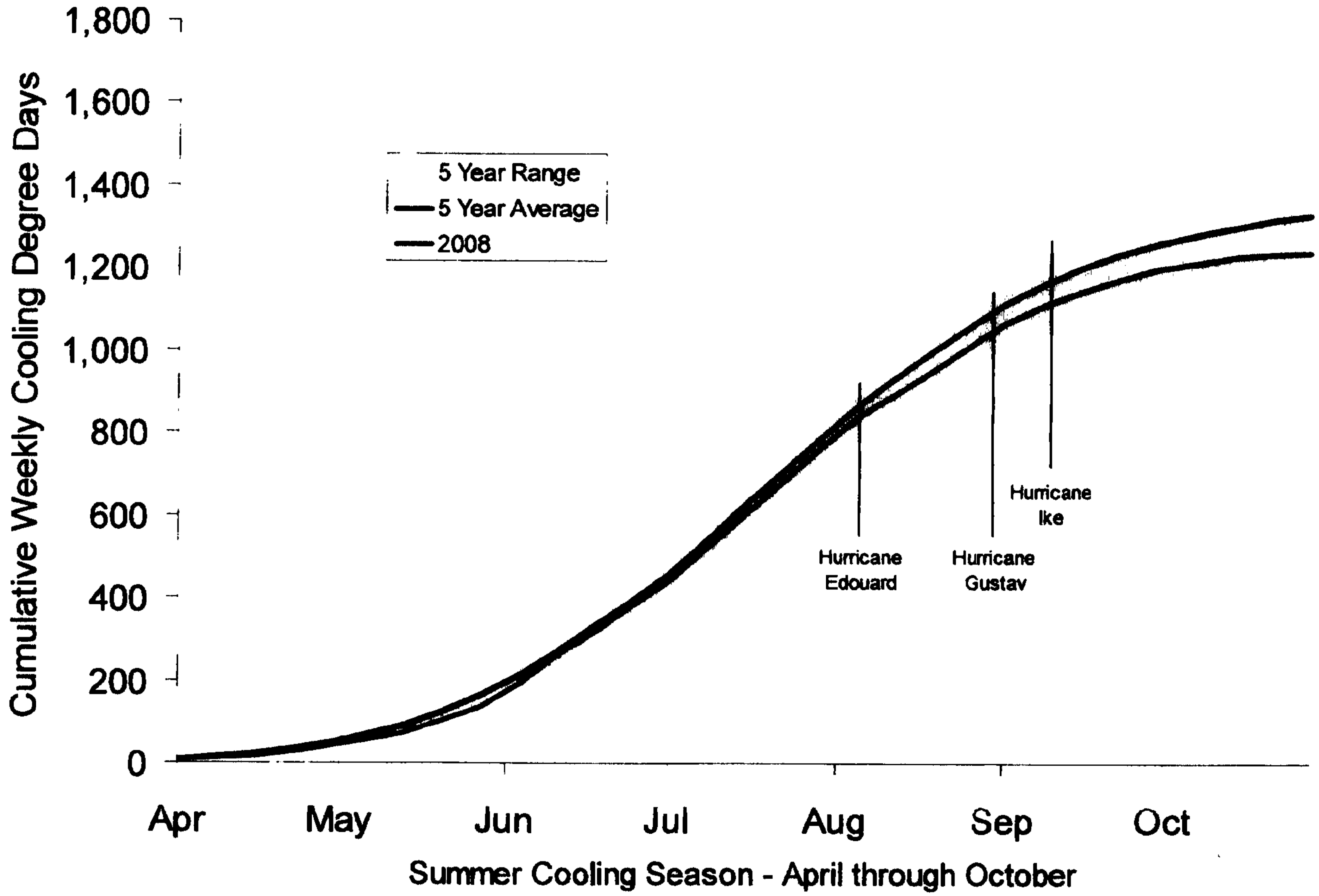
Robust Production Growth Led by Texas and the Rockies



Note: Rockies includes Colorado and Wyoming.

Source: Derived from Bentek Energy data.

Summer of 2008 Was Cooler Than the 5-Year Average



Source: Derived from *NOAA* data.
January 2009 Mid-Atlantic Snapshot Report

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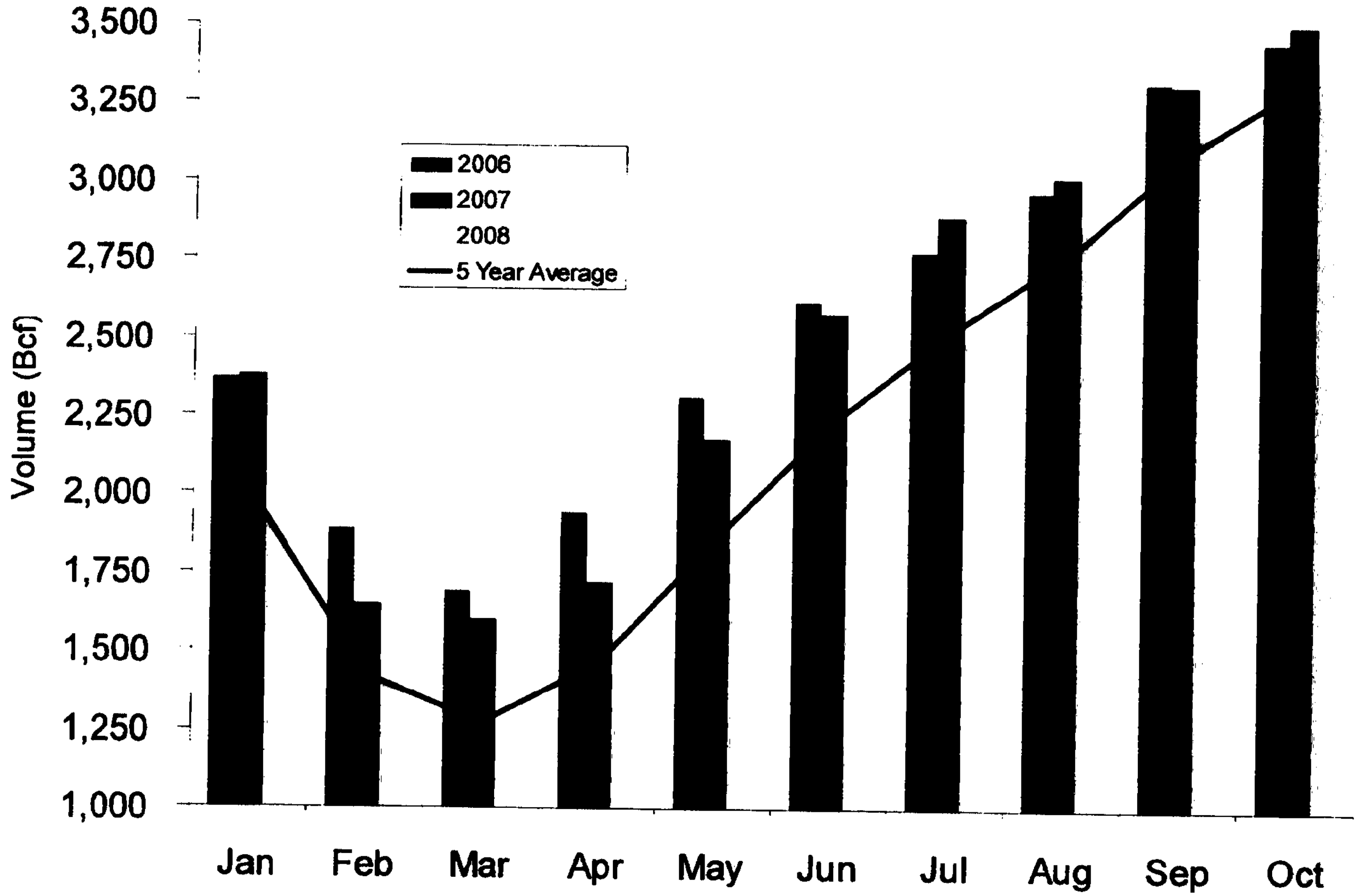
US Gas Inventories Approximate the 5-Year Average, But Were Below 2006-2007 Inventories



Source: Derived from EIA, *Monthly Energy Review.*
January 2009 Mid-Atlantic Snapshot Report